

*Income Tax Act*

miss the opportunity to require of the government that it pay special attention to various suggestions coming not only from me, but also from resolutions passed at a meeting that represented the opinion of thousands of Canadians.

I venture to believe that the government will give consideration to the suggestions I have tried to bring forward in the House. I support this fiscal reform which, viewed as inadequate by some hon. members, is still a step toward a society with a little more justice. Who could refuse support to legislation aiming for a more just society some of it involving an improvement within the present economic context?

[*English*]

**Mr. Robert P. Kaplan (Don Valley):** Mr. Speaker, Canada has had a brief romance with the concept of a neutral income tax system. This proposal was the recommendation of the Carter commission, a system in which a buck would be a buck to the tax gatherer and special treatment and special incentives would be removed. Such a system assumes that the best allocator of resources is the free market and that any cushioning of its effects by the tax system wrongly distorts economic decision-making. Carter acknowledged a place for subsidies and stimulative grants but he felt the tax system should not be used for that purpose.

That neutral concept of taxation has been abandoned in the bill before us. It has been abandoned in favour of a non-neutral system, a system which will stimulate growth, stimulate savings and capital formation, stimulate construction and plant expansion, stimulate regional development and stimulate Canadian ownership of our economy.

But, Mr. Speaker, this bill was conceived and designed on certain assumptions about the Canadian economy. I suggest that one of the most fundamental was our economic relationship with the United States, a relationship on which a substantial capital flow and an even more important commodity exchange is based. If this fundamental relationship of Canada and the United States were changed and we had a neutral tax system, that would be one thing and we could perhaps ignore the Canada-U.S. relationship. But with a non-neutral system, with biases reinforcing certain of our traditional relationships with the United States, we would have to reassess the whole tax system to see how these built-in biases are affected by the changes in the fundamental assumptions. These are the problems I would like to discuss tonight.

Canada-U.S. relationships fit into a pattern—a big, powerful country coexisting with a small one. History is full of cases of great powers coexisting with small neighbours, and there are other such cases in the world today. I think what is unique about Canada's relationship with the United States in this type of context has been the historic, fundamental decency of American policy toward us, which has meant for Canada absolute, if sometimes grudging, autonomy. Our independent view of international affairs is shown as we trade with Cuba, exchange ambassadors with China, condemn atomic testing and the war in Viet Nam and harbour American deserters and draft-dodgers. Contrast this kind of relationship with how China would react if its military deserters were welcomed

in Afghanistan, or with how the Soviet Union would regard an application by Sweden to enter NATO.

In the economic sphere as well, our independence is visible. The American policy has not impeded Canadians in their aspirations to develop a high standard of living and an urban life style. The American investment in Canada by manufacturing companies and access to the American market for Canadian manufactures, have brought us real economic benefits. This attitude of partnership of a great power to its small neighbour has also benefited the United States. It has been proved that there is more to gain for its own people from the prosperity of its neighbours than from the bleeding process of empires past. In our secure and comfortable relationship, Canada has abandoned its traditional policy of fostering local industries behind tariff protection and has challenged Canadians to meet world competition in our own domestic markets. In this pursuit we have become America's best customer by far.

But the surcharge of August 15 and the prospect of far ranging U.S. tax subsidies to manufactured exports force Canadians to reconsider our relations with the United States. For this purpose it is immaterial whether the unilateral American act implies a new era, so far as the Americans are concerned, in their relations with Canada as such, or whether the Americans merely regard Canada's industrial prosperity as a pawn in their negotiations with third countries. In either case, our economic future is in peril.

• (8:40 p.m.)

I believe that the United States seems to have taken a narrow view of world trade. It seems to be labouring under an extremely static concept. For example, Secretary Connally has called for a shift of certain volumes of trade, measured in billions of dollars, from each of the countries with whom the United States does business, back to American production. This demonstrates a belief, I submit, that world trade is something like the children's game of trading marbles. Each child brings so many marbles to the table, and after the game some have more and some have less. The total number, however, does not change.

Mr. Speaker, world trade is not like a game of marbles; it is a dynamic, not a static thing. Total volumes are not fixed or predetermined. At the end of a successful round of world trade there is more in the aggregate than there was at the beginning. The process is creative; it generates expansion and wealth and can increase every player's prosperity. Everyone can win in trade. That does not happen in a game of marbles.

This is the dynamic approach the world had going for it in the Kennedy round. The United States should surely see, if it is seeking to use its economic power to take some or all of our marbles away, that it faces the risk, if Canada submits to such a policy, that the Canadian player who has contributed so much to the total process will be weakened or driven out of the game. Who would gain in such a process? Our first mission, therefore, is to clarify the United States concept of world trade and Canada's first place in it. What is the American concept? At the moment I believe their view of world trade is uncrystallized. I do not think there is a clear American consensus of what it